

**SECRET***Security*

80 APR 1978

MEMORANDUM FOR: Deputy Director for Administration

FROM: James H. McDonald  
Director of Logistics

SUBJECT: Contractual and Industrial Security Oversight

Don:

1. During the last quarter of 1977, the Acting DDCI, Jack Blake, directed the formation of a task force to perform an in-depth review of industrial contracting and industrial security in CIA. That group was chaired by [redacted] Chief, Procurement Management Staff, Office of Logistics (OL), was our DDA representative to the task force. The group finished its work in early 1978, with subsequent review and approval of resulting recommendations taking place at Executive Advisory Group (EAG) meetings in April and May of that same year. There is attached a current report which lists recommendations by the task force, approvals and dates of said approvals, offices to which action was assigned, and current status. You will note that the largest number of recommendations involve either OL or the Office of Security (OS). You will also note that of 51 approved recommendations and/or directions, 39 have now been completed. Two of the recommendations, #8 in the Industrial Security Interim Report, and #15 in the Final Report require that the Inspector General (IG) conduct periodic functional audits and inspections of the industrial contracting and industrial security process. These recommendations became the basis for the current IG investigation being conducted by [redacted] OL was tasked by the Acting DDA, [redacted] to act as coordinator for implementation of approved recommendations and also to provide periodic reports to your office. These reports were biweekly initially but have been aperiodic during the last few months because of the fact that only a few recommendations remained to be completed, most long term.

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SUBJECT: Contractual and Industrial Security Oversight

25X1 2. I would be happy to meet with you at your convenience to discuss any or all of the recommendations as well as action taken to date to implement said recommendations. Mr. Charles [redacted] in OS has asked that he also be included in any briefing to you on task force recommendations and subsequent implementation action.

[redacted] 25X1  
James H. McDonald

Attachment

Distribution:

- 1 each PN recipient
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ATTACHMENT

CONTRACTUAL AND INDUSTRIAL SECURITY OVERSIGHT

RECOMMENDATION OR DIRECTION	APPROVAL	STATUS	ACTION ASSIGNED TO	NECESSARY FOR IMPLEMENTATION	TARGET COMPLETION DATE	STATUS	COMMENT/RECOMMENDATION
<u>Industrial Security Interim Report</u>							
Recommendation #1: That remedies available in contract law be used as the primary means of enforcing contractor compliance with industrial security standards.	EAG DDCI	4/18/78 6/2/78	OGC			Complete	
Recommendation #2: That the Agency explore legislation which would empower the DCI to impose sanctions on industrial security contractors who fail to conform to security performance standards.	EAG DDCI	4/18/78 6/2/78	OGC/OLC				On 11 Jan 79, Brian Walsh, staff member for the Subcommittee on Federal Spending Practices and Open Government, stated unequivocally that any legislative punitive sanctions against contractors violating industrial contract security provisions would not be considered further. No punitive provisions will be included in acquisition legislation.
Recommendation #3: That Director of Security responsibilities for the Agency industrial security effort be clearly defined in the Office of Security series of Agency regulations.	EAG DDCI	4/18/78 6/2/78	D/Sec			Complete	
Recommendation #4: That Agency regulations be revised to clearly charge the Director of Communications with responsibility for and enforcement of communications security at Agency-sponsored contractor facilities, including those of National Programs.	EAG DDCI	4/18/78 6/2/78	D/CO			Complete	

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<u>Industrial Security Interim Report</u>							
Recommendation #5: That Agency regulations be strengthened to give the Director of Security clear responsibility for the overall coordination of the entire industrial security effort of the Agency and for ensuring that classified procurement security support is well organized and effective. These regulations should include provision for:  --Security audits of procurement security management practices within Agency components as well as security audits of contractor facilities;  --Technical supervision of all industrial security officers including establishment of comprehensive reporting requirements; and  --Implementation of an Industrial Counterintelligence Program, including the scheduling of audio countermeasures inspections of contractor facilities and the establishment of a close working liaison with the FBI with respect to industrial security.	EAG DDCI	4/18/78 6/2/78	D/Sec			Complete	
Recommendation #6: That the Director of Security be required to prepare a written review of the fitness reports of all industrial security officers as to their performance in carrying out his security policy.	EAG DDCI	4/18/78 6/2/78	D/Sec			Complete	

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<u>Industrial Security Interim Report</u>							
Recommendation #7: That the Director of Security develop a centralized index of the industrial security status of contractor personnel and facilities to improve security oversight.	EAG DDCI	4/18/78 6/2/78	D/SEC		Fall 1979		Conversion of the industrial security approvals of contractor personnel into an automated system (SECOND Program) has commenced. It is estimated that this effort will be complete by Fall 1979.
Recommendation #8: That the Inspector General perform functional reviews of the Agency Industrial Security Program.	EAG DDCI	4/18/78 6/2/78	IG				Complete.
	EAG DDCI	4/18/78 6/2/78	D/CO				

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<u>Industrial Security Interim Report</u>							
Recommendation #10: That the Director of Security be responsible for monitoring the security responsibilities of the contractor. The enforcement of contract terms, including those covering security performance, remain the responsibility of the contracting officer.	EAG DDCI	4/18/78 6/2/78	D/SEC D/L			Complete	
Recommendation #11: That procedures be revised to provide for a single industrial security officer to be responsible for inspection and policy guidance at each contractor facility wherever cover and operational security permit.	EAG DDCI	4/18/78 6/2/78	D/SEC			Complete	
Recommendation #12: That the necessary staff realignment and augmentation be approved and that added contractor costs be absorbed by the sponsoring office.	EAG DDCI	4/18/78 6/2/78	D/SEC			Complete	
Recommendation #13: That a uniform industrial security manual (currently in preparation) be completed at the earliest possible date and that the performance standards contained therein with appropriate annexes be incorporated in the provisions of classified Agency contracts. Community-wide coordination and acceptance of the uniform manual should be encouraged.	EAG DDCI	4/18/78 6/2/78	D/SEC		April 1979		Manual in process of being printed. Should be ready for distribution late April/early May.

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<u>Industrial Security Interim Report</u>							
Recommendation #14: That the Director of Security periodically review variances and waivers recommended by industrial security officers to ensure compliance with Agency security policy.	EAG DDCI	4/18/78 6/2/78	D/SEC			Complete	Conflicts resulting from such variances will be referred to the Director of Security (Attn: DD/PTOS) for resolution.
Recommendation #15: That "requests for proposals" which anticipate classified contracts describe security requirements and require that the contractor include in his proposal his plan for satisfying those requirements.	EAG DDCI	4/18/78 6/2/78	D/L			Complete	
Recommendation #16: That contractor performance in the security area be considered as a critical element for consideration in the contracting officer's determination of responsibility prior to awarding contracts.	EAG DDCI	4/18/78 6/2/78	D/L			Complete	
Recommendation #17: That incentive/award fee type contracts include security performance along with other performance requirements as a basis for fee determination.	EAG DDCI	4/18/78 6/2/78	D/L			Complete	
Recommendation #18: That classified contracts shall incorporate specific security performance standards as well as language that stresses the importance of complying with all security requirements.	EAG DDCI	4/18/78 6/2/78	D/SEC OGC			Complete	

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<u>Industrial Security Final Report</u>							
Recommendation #1: That there be one delegation of contracting authority from the DCI to the D/Log with redelegation of that authority to the contracting officers for National and CIA Programs.	Disapproved EAG DDCI	5/23/78 6/2/78				N/A	Disapproved. No action necessary.
Recommendation #2: That decentralized contracting procedures be continued as the most cost effective method of carrying out industrial R&D contracting.		No determination. Recommendation requested by DDCI.				Complete.	
Recommendation #3 (ISIR #4): That Agency regulations be revised to charge the D/Sec with specific responsibility for the physical security protection of communications centers located at Agency-sponsored contractor facilities, including those of National Programs, and also be revised to charge the D/CO with specific responsibility for emanations, transmission and cryptographic security protection at these facilities.	EAG DDCI	4/18/78 6/2/78	None			Complete	
Recommendation #4 (ISIR #6): That the D/Sec participate jointly with Agency procurement components in preparing Letters of Instruction (LOIs) for each ISO and to prepare, as part of the fitness report cycle, a written evaluation of his or her performance in carrying out security policy. The D/Sec's evaluation will be shown to the Office of Personnel (OP) for inclusion in the officer's official personnel file.	EAG DDCI	4/18/78 6/2/78	None			Complete	



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<u>Industrial Security Final Report</u>							
Recommendation #5 (ISIR #5): That Agency regulations include provision for the D/Sec to exercise functional supervision over all ISOs and to set up comprehensive reporting requirements which will include a direct channel of communication between each ISO and the OS.	EAG	4/18/78	None			Complete	
	DDCI	6/2/78					
Recommendation #6: That the D/Sec examine the ISO support structure in order to recommend to the contracting components effective functional realignment and reporting responsibilities. Emphasis should be placed on a more efficient structuring of the industrial security staffing on [redacted]	EAG	4/18/78	None			Complete	
	DDCI	6/2/78					
Recommendation #7: That the Office of Legislative Counsel in coordination with the Office of General Counsel advise the DCI of legislative proposals which could severely impact on the procurement authorities of Section 8 of the CIA Act.	No determination. Recommendation requested by DDCI.					Complete	

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<u>Industrial Security Final Report</u>							
<u>Recommendation #8:</u> That CIA continue to utilize the ASPR to the maximum practical extent except in those areas in which the FPR is mandatory for all Federal agencies.	No determination					Complete	
<u>Recommendation #9:</u> That the D/Log continue to issue notices on procurement policy and procedures which complement the ASPR and FPR and permit sufficient flexibility for procurement responsiveness to mission requirements.	No determination					Complete	
<u>Recommendation #10:</u> That the Agency continue to implement interagency agreements for the development of national collection programs.	No determination. Recommendation requested by DDCI.					Complete	
<u>Recommendation #11:</u> That the D/L issue procurement policy and procedural guidance for both Agency and National Programs and oversee their implementation.	No determination					Complete	
<u>Recommendation #12:</u> That the Project Officer's Manual be updated and issued as a Headquarters handbook to provide guidance for technical representatives involved in the industrial contracting process. Particular attention should be given to guidance on industrial security matters.	No determination. Recommendation requested by DDCI.				August 1979		Adopted as an MBO for Logistics in 1979. The primary manual will go into typing during the week of 28 May. Several addenda are still in writing stage.

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<u>Industrial Security Final Report</u>							
Recommendation #13: That the Project Officer in the Contract Cycle course be continued with emphasis on the specific role of the contracting officer, the auditor, the security officer, and the technical representative with respect to industrial security.	No determination.		Recommendation requested by DDCI.			Complete	
Recommendation #14: That the D/Log, in coordination with the Deputy Director for Science and Technology (DD&ST), establish contract review procedures which will ensure adherence to Agency procurement policy consistent with National Programs requirements.	No determination.					Complete	
Recommendation #15: That the Inspector General conduct periodic functional audits and inspections of the industrial contracting process.	No determination.		Recommendation requested by DDCI.			Complete	
Recommendation #16: That the Director of Finance and the Chief, Det A, jointly conduct periodic reviews of the policies and procedures followed by each of their components for the purpose of assuring appropriate application of contract audit policy and procedures.	No determination.		Recommendation requested by DDCI.			Complete	

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<u>Industrial Security Final Report</u>							
Recommendation #17: That the Inspector General arrange with representatives of the DCAA to conduct a joint survey to determine what action is required to improve audit services provided to Agency-managed National Programs.	No determination. Recommendation requested by DDCI.					Complete	
Recommendation #18: That the General Counsel and the D/Log determine what further manpower may be necessary to enable the division to provide the desired legal support to the industrial contracting process while fulfilling its other assigned responsibilities.	No determination. Recommendation requested					Complete	No additional man- power required.
Recommendation #19: That the D/Log consider the establishment of a Deputy Director for Industrial Contracting.	No determination. Recommendation requested by DDCI.						Approval not recommended.
Recommendation #20: That the D/Log review the Procurement Management Staff to assure that it is staffed to carry its responsibilities.	No determination. Recommendation requested by DDCI.					Complete	One additional GS-15 position will be added to OL/FMS.
Recommendation #21: That the D/Log reduce [redacted] activities by redirecting competitive industrial R&D contracting responsibilities to the component contracting teams.	No determination. Recommendation requested by DDCI.				2 April 79		Procurement Note to be issued week of 23 May.
Recommendation #22: That the Inspector General determine if the functional review of industrial contracting requires additional personnel.	No determination. Recommendation requested by DDCI.					Complete	

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<u>Industrial Security Final Report</u>							
Recommendation #23: That the DDA establish a working group to develop procedures for implementing ISIR Recommendations #15, 16, 17, and 18, and report to the DDA within 60 days.	No determination. Recommendation requested by DDCI.					Complete	Disapproval recommended. 15, 16, 17, and 18 approved and moving toward implementation.
Recommendation #24: That the D/Log (for contracting officers) and D/Fin (for auditors) participate jointly with Agency procurement components in preparing Letters of Instruction. The D/L and the D/Fin shall also prepare written evaluations of their personnel assigned to Industrial Contracting Teams to ensure assessment of their technical performance. These evaluations shall be shown to the individuals concerned, attached to their fitness reports, and included in their official personnel files.	No determination. Recommendation requested by DDCI.				April 1979		Action complete for COs except for receipt of LOIs
Recommendation #25: That a compartmented contract management system be developed which will include the requirements of the users of CONIF, STEPS and SPA, and that the D/Log establish procedures for utilizing this system to monitor the performance of Agency contracting elements.	Conditional approval EAG 5/23/78 DDCI 6/2/78						See discussion on last item of this report.

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<u>Industrial Security Final Report</u>							
Recommendation #26: That the DDS&T seek guidance from the Director, NRO regarding accountability for property acquired with National Programs funds.	Approved EAG DDCI	5/23/78 6/2/78				Complete	Agreement reached with NRO on procedure
Recommendation #27: That the DDA, in coordination with the DDS&T, establish a computer-supported system to aid in control of classified document exchanges throughout the Agency's industrial contracting program.	No determination. Recommendation requested by DDCI.						Because of wide scope, best directed by DDA and DDS&T.
<u>EAG - 5/23/78</u>							
a. The Agency will maintain the dual delegation of contracting authority to the Director of Logistics and to the Chief, Contracts Staff, OD&E, as the National Programs Contracting Officer, DDS&T, for Agency and National Programs respectively.	Approved EAG DDCI	5/23/78 6/2/78				Complete	No action necessary. Continuation of existing arrangement.

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b. The DDS&T shall establish a National Programs Contract Review Board to review system procurements and associated source selection procedures. The Board shall be chaired by the Associate Deputy Director for Science and Technology and have the following membership: The Director of Logistics or in his absence a representative appointed by him; a Senior Program Manager appointed by the DDS&T; a Legal Advisor appointed by the General Counsel; the Comptroller, DDS&T, as a representative of Director of Finance; and a Security Advisor appointed by the Director of Security. The Chief, Procurement Management Staff, DDS&T, and a representative of Detachment A DCAA will act as advisors to the Board. The Board at its initial meeting shall recommend to the DDS&T its procedures, types of procurements, and criteria for procurements that will be subject to its review and approval. A copy of these procedures will be submitted for my approval.	Approved EAG DDCI	5/23/78 6/2/78	DDS&T			Complete	Charter established. Documentation requirements set and projection of case loading determined.
c. The DDS&T shall revise and update the current delegations of contracting authority for National Programs from the DCI to the Chief, Contract Staff, OD&E, to include the following provisions:	Approved EAG DDCI	5/23/78 6/2/78	DDS&T			Complete	
(1) The National Programs Contracting Officer has direct access to the Director of Logistics for coordinating substantive matters and shall bring to his attention any problem that could result in embarrassment or legal difficulty for the Agency.							

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(2) The National Programs Contracting Officer shall establish review procedures which will ensure adherence to Agency procurement policy consistent with National Programs requirements. Any policy differences, which cannot be reconciled, shall be submitted to me with a request, accompanied by justification, for policy exception.							
d. The Director of Logistics shall ensure that the Procurement Management Staff, OL, makes periodic inspections of the OD&E Contract Staff.	Approved EAG DDCI	5/23/78 6/2/78	D/L	Include National Teams on inspection schedule.		Complete	Agreement has been reached and teams are progressively being scheduled for inspections.
e. The DDS&T shall provide that the Director of Logistics or his designee, Chief, Procurement Management Staff, OL is the reviewing official on fitness reports for the Chief, Procurement Management Staff, DDS&T, and for the Chief, Contracts Staff, OD&E.	Approved EAG DDCI	5/23/78 6/2/78	DDS&T		As FRs are written		D/L or designee will execute.
f. Concerning Recommendation #25, the DDA and DDS&T will work together to establish an appropriate data base to ensure that essential contract information is readily available for responding to questions on Agency contracting activity.	Approved EAG DDCI	5/23/78 6/2/78	DDA-DDS&T		15 Aug 79		Agreement has been reached between Logistics and DDS&T on monitoring data from SPA. Necessary program changes are currently being defined.